



The Accounting Officer
Ubuntu Local Municipality
Private Bag X329
Victoria West
7070

30 November 2012

Reference: 21431REG11/12

Dear Mr Fillis

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ubuntu Local Municipality for the year ended 30 June 2012.

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.



AUDITOR-GENERAL
SOUTH AFRICA

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

Victor Bakali: NCBU

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REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON UBUNTU LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ubuntu Local Municipality set out on pages xx to xx, which comprise statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in equity and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, Plant and Equipment

6. Included in the property, plant and equipment balance of R126 671 871. (2011:R119 277 850) is land to the value of R 13 983 900. My audit revealed that a significant number of lands had buildings on them which were not included in the asset register. I was unable to confirm the valuation of these assets by alternative means. Consequently I was unable to determine whether any adjustment relating to movable tangible assets as disclosed in note 12 to the financial statements was necessary.

7. My audit revealed a significant number of immovable properties belonging to the municipality and registered with the Registrar of Deeds that was not accounted for in the accounting records. The value of these assets that were not recorded in the accounting records could not be determined. Furthermore, a significant number of immovable properties that are not in the name of the municipality were recorded in the accounting records of the municipality. Consequently, I was unable to determine whether any adjustments relating immovable tangible assets balance of R19 292 508 as disclosed in note 12 in the financial statements are necessary.

Investment Property

8. Standards of Generally Recognised Accounting Practice, GRAP 16, *Investment property* requires that land/property held for undetermined future use be recognised as investment property. The municipality did not recognise land/property held for undetermined future use amounting to R9 437 800 as investment property. Consequently, investment property is understated by R9 437 800 and property, plant and equipment overstated by the same amount.
9. Standards of Generally Recognised Accounting Practice, GRAP 12, *Inventory* requires that land/property held for sale be recognised as inventory. The municipality did not recognise land/property held for sale as inventory. The municipality's accounting records did not permit performance of alternative procedures to determine the effect on inventory account balances.

Revenue

10. Sufficient appropriate audit evidence could not be obtained regarding revenue from exchange transactions disclosed as R70 968 119 (2011: R57 200 257) in the statement of financial performance, as direct income registers are not kept by the municipality. I am therefore unable to confirm whether all direct income was recorded. Due to lack of sufficient documentation I could not perform alternative procedures. Consequently I was unable to determine whether any adjustments were necessary to the amount disclosed for revenue from exchange transactions.

Irregular expenditure

11. During 2011, I was unable to obtain sufficient appropriate audit evidence about completeness of irregular expenditure reflected as R10 550 539, due to supporting documentation not being submitted for audit purposes. I was unable to confirm the irregular expenditure by alternative means. Consequently I was unable to determine whether any adjustment to this amount was necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.
12. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by an undetermined amount.

Operating Expenditure

13. During 2011, I was unable to obtain sufficient appropriate audit evidence about operating expenditure reflected as R33 324 513 as supporting documentation could not be submitted for audit purposes. I was unable to confirm the expenditure by alternative

means. Consequently I was unable to determine whether any adjustments to this amount and retained earnings were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Qualified opinion

14. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ubuntu Local Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

16. With reference to note 53 to the financial statements, the department is the defendant in the following lawsuits:

- Non possession of the landfill site permit/licence
- Provision of water claim by the resident
- 2 claims against the municipality over suspension of employees.
- Guarantee in favour of Mineral Resources

The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

17. As disclosed in note 38 to the financial statements, the corresponding figures for prior balance sheet date 30 June 2011 have been restated as a result of an error discovered during the year 30 June 2012 audit of financial statement of the Ubuntu Local Municipality.

Going concern

18. Note 20 to the financial statements indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The following conditions, along with other matters as set forth indicate the existence of a material uncertainty:

- Debtors amounting to R19 976 509 (2011: R14 828 816) had been outstanding for more than 90 days.
- The municipality did not settle all trade creditors within 30 days as required by section 65(2) (e) of the MFMA.

Material losses

19. As disclosed in note 32 to the financial statements, material impairments to the amount of R4 800 847 (2011: R3 037 735) were incurred as a result of probable irrecoverability trade debtors.

Additional matters

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

21. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

22. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

23. The annual performance was not presented for audit and consequently our findings below are limited to the procedures performed on the strategic planning and performance management documents.

24. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

25. The material findings are as follows:

Usefulness of information

Measurability

26. The National Treasury *Framework for managing programme performance information* (FMSSI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMSSI but did not receive the necessary training to enable application of the principles.

27. The National Treasury *Framework for managing programme performance information* (FMSSI) requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets. This was due to the fact that management was aware of the requirements of the FMSSI but did not receive the necessary training to enable application of the principles.

28. The National Treasury *Framework for managing programme performance information* (FMSSI) requires that the time period or deadline for delivery be specified. A total of 100% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMSSI but did not receive the necessary training to enable application of the principles.

29. The National Treasury *Framework for managing programme performance information* (FMSSI) requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined in that clear, unambiguous data definitions were not

available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPPI but did not receive the necessary training to enable application of the principles.

30. The National Treasury *Framework for managing programme performance information* (FMPPPI) requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Relevance

31. The National Treasury *Framework for managing programme performance information* (FMPPPI) requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. A total of 100% of indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the five-year integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the integrated development plan.

Compliance with laws and regulations

32. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Budget

33. The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the Municipal Finance Management Act.

Annual financial statements, performance and annual report

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified opinion.
35. The annual performance report for the financial year under review was not prepared as required by section 46 of the Municipal. The municipality did not prepare a performance report for the financial year under review, which was included in the annual report.
36. The annual report of the municipality including all the municipal entities under the municipality's sole or shared control was not tabled in the municipal council, within seven months after the end of the financial year.
37. The mayor did not promptly submit a written explanation to the council setting out the reasons for the delay.
38. The municipal council, by no later than two months from the date on which the annual report was tabled in the council in terms of section 127 of the MFMA, did not adopt an oversight report containing the council's comments on the annual report,

39. The accounting officer did not make public the oversight report within seven days of its adoption.
40. The municipality did not prepare a performance report for the financial year under review, which was included in the annual report.

Audit Committee

41. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA and other applicable legislation.
42. The municipality did not annually appoint and budget for a performance audit committee.
43. The audit committee did not advise the council and accounting officer and the management staff in terms of MFMA 166(2)(a)
44. The audit committee did not advise the council and accounting officer and the management staff on matters relating to the adequacy, reliability and accuracy of financial reporting and information.
45. The audit committee did not advise and accounting officer and the management staff on matters relating to compliance with the MFMA and DoRA.
46. The audit committee did not respond to the council on the issues raised by the auditor-general in the audit report.

Internal Audit

47. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that it did not advise the accounting officer on matters relating to accounting procedures and practices and risk management.
48. The internal audit unit did not advise the accounting officer and did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and any other applicable legislation.
49. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes
50. Internal audit did not assess:
 - the functionality of the performance management system (PMS).
 - the compliance of the PMS with the MSA.
 - the extent to which the performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators
51. Internal audit did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

Procurement and contract management

52. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) & (c).
53. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
54. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
55. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
56. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
57. Contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act
58. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.
59. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
60. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).

Human resource management and compensation

61. The municipal manager did not provide job description's for each post in the staff establishment as required by section 66(1)(b) of the Municipal Systems Act.
62. Positions in senior management were vacant for more than 12 months.

Expenditure management

63. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
64. The accounting officer did not take reasonable steps to prevent unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
65. The municipality did not recover unauthorized, irregular or fruitless and wasteful expenditure from the person liable for that expenditure in terms of MFMA 32(2).

Conditional grants

66. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management.

67. The municipality reported to the transferring national officer, the relevant provincial treasury and the National Treasury its spending and financial performance against its entire capital budget and performance against the targets stipulated in the infrastructure performance framework as part of the monthly budget statement for the months of September 2011, December 2011, March 2012 and June 2012 in terms of DoRA 11(2)(b)(ii) with MFMA sec. 71.
68. Within 30 days after the end of each quarter, the municipality did not report to the transferring national officer and the National Treasury its performance for the quarter against the targets stipulated in the infrastructure performance framework in terms of DoRA 11(2)(c)(ii).
69. The municipality's annual financial statements and annual report did not include reports against programmes funded by the allocation against the relevant framework in terms of DoRA 11(5)
70. Within two months after the end of the financial year the municipality did not:
 - evaluated its performance in respect of programmes funded by the allocation.
 - submitted the evaluation to the transferring national officer in terms of DoRA 11(6)(a)
71. By 02 August 2011, the municipality had not submitted all project registration forms, for projects to be implemented in 2011/12, to the provincial department of local government in terms of DoRA Grant Framework, (Gazette no 34280).
72. By 28 October 2011, the municipality had not submitted its detailed project implementation plan, including the list of projects to be implemented in 2012/13 financial year, to the national department (CoGTA) in terms of DoRA Grant Framework, (Gazette no 34280).
73. The municipality had not submitted MFMA implementation plans to National Treasury to address weaknesses in financial management.

Asset management

74. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the Municipal Finance Management Act.
75. The accounting officer, within 10 working days of the end of each month, did not submit to the mayor a report describing, in accordance with generally recognized accounting practice, the investment portfolio at the end of the month.

Internal control

76. I considered internal control relevant to my audit of the financial statements and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in disclaimer of opinion, the findings on the compliance with laws and regulations are included in this report.

Leadership

77. The leadership did not take appropriate action with regard to a lack of controls in the finance and supply chain management directorates, resulting in non-compliance with

applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure being incurred.

78. Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

79. The municipality did not have individuals who sufficiently understand the financial reporting framework and performance and financial management requirements. This resulted in the municipality engaging a consultant to prepare the financial statements. The underlying accounting records of the municipality did not facilitate the preparation of the financial statements to comply with the accounting framework.
80. Controls were not designed to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. Documentation supporting amounts disclosed in the financial statements was not always available.
81. Management did not document and approve internal policies and procedures to address the process of collection, recording, processing, monitoring and reporting on performance information. Consequently, performance management systems, processes and procedures had not been designed and implemented.

Governance

82. The municipality did not respond to the assessed risks by determining a risk strategy and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
83. The financial statements were subject to material corrections resulting from the audit, which are attributable to the lack of risk assessment performed, weaknesses in the design and implementation of internal control in respect of financial management, and financial reporting and weaknesses in the information systems.
84. The accounting officer did not prioritise the establishment of a fully functioning performance audit committee and audit committee and therefore the functions were not established and functional during the financial year. This also resulted in the committees not being able to fulfil all their responsibilities.

Auditor-General

Kimberley

30 November 2012



Auditing to build public confidence